

MULTIFAMILY PROPERTY TAX EXEMPTION

Policy Review: Set 2

March 27, 2013

Policy Questions

MFTE Review

*Feb 13:
Administrative
Procedures*

*Feb 27: Policy
Questions 1*

*~~Mar 13: Policy
Questions 2~~*

*Mar 27: Policy
Questions 2*

- Program Goals
- Geographic Span
- Affordability Levels/Occupancy Assumptions
- Percent of Set-Aside Units
- Unit Sizes

Program Goals/Categorization

- Nine existing program goals
- Fall within two broad categories:

MORE MULTIFAMILY HOUSING

1To encourage more Multifamily Housing opportunities within the City

2To stimulate new construction and the rehabilitation of existing vacant and underutilized buildings for Multifamily Housing

4 To increase the supply of Multifamily Housing opportunities in Urban Centers that are behind in meeting their 20-year residential growth targets, based on Department of Planning and Development (DPD) statistics

6To preserve and protect buildings, objects, sites, and neighborhoods with historic, cultural, architectural, engineering or geographic significance located within the City

9To encourage the development of Multifamily Housing along major transit corridors

MORE AFFORDABILITY

3To increase the supply of Multifamily Housing opportunities within the City for low and moderate income households

5To promote community development, affordable housing, and neighborhood revitalization in Residential Targeted Areas

7To encourage the creation of both rental and homeownership housing for Seattle's workers who have difficulty finding affordable housing within the City;

8To encourage the creation of mixed-income housing that is affordable to households with a range of incomes in Residential Targeted Areas

Program Goals/Measurability

City Audit Recommendation 1:

We recommend that the City examine the relevance, attainability, and measurability of each ordinance goal governing the MFTE program and when necessary, that it modify the goals to ensure they are measurable and achievable....

City Audit Recommendation 2:

The City should consider whether stimulating construction is an appropriate MFTE program goal, which can be measured and assessed for compliance.

More Multifamily Housing

- MFTE likely influential at the margins.
- Difficult to quantify the “but for” impact.

More Affordability

- Easily quantified in areas with information on rents for new construction.
- As of today, monthly MFTE rents are between \$300 and \$400 below market rent for comparable units.

Program Goals/Impacts over Time

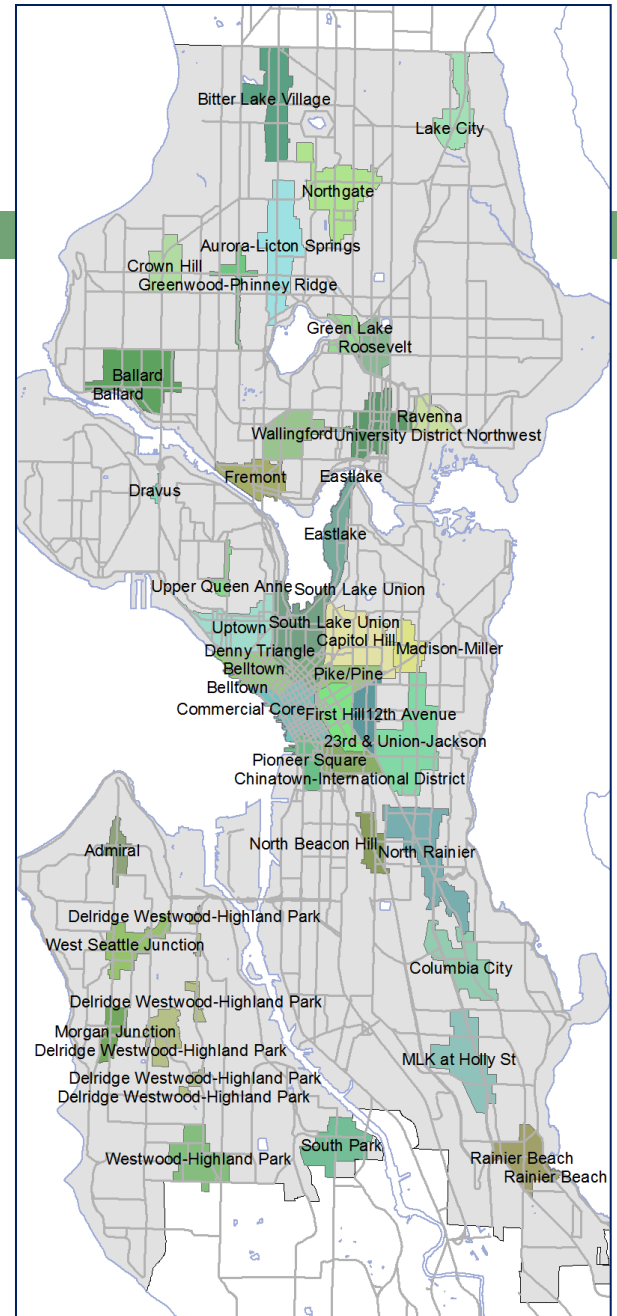
"In a strong real estate market, the program helps provide affordable housing in market-rate developments. In a down-cycle or transitional market area, the program is most effective at helping make housing projects financially feasible."

--2011 Status Report to City Council

- Depending on timing and geography, MFTE can advance either goal – or both of them.
 - Over a 12-year cycle, dramatic market changes can blur the distinction between stimulating construction and creating affordability.
 - Even in lower-rent areas, MFTE's income restrictions benefit target renters.
- Amendments to SMC 5.73 could alter the stated goals.

Geographic Span

- SMC 5.73 names 39 residential targeted areas.
- Largely contiguous with Urban Centers and Villages.
- Reflects expectation that program could be beneficial in spurring development and supporting affordability.
- Should geographic span be altered?



Geographic Span/Growth Targets

City Audit Recommendation 3:

The City should consider whether it wants to limit the number of Residential Targeted Areas where MFTE housing can be built to areas that have made little progress in meeting their residential growth targets and could benefit from housing, economic development and revitalization. For example, the City could limit the MFTE program to Residential Target Areas that have achieved 35 percent or less of their residential growth target.

- Six RTAs have produced more than 700 MFTE-supported units (approved projects):
 - Capitol Hill
 - West Seattle
 - Ballard
 - Uptown
 - South Lake Union
 - Northgate
- These areas' percentage attainment of 2024 growth targets vary from **38%** to **277%** (permitted projects).
- Weak correlation between MFTE production and percentage of growth target met.

Affordability/Current Status

City Audit Recommendation 9:

The City should eliminate requirements that do not serve to advance the program's goals, and simplify others to make program administration and oversight less cumbersome....

Rather than requiring studios to be affordable at or below 65% of Area Median Income (AMI), one bedroom units at or below 75% of AMI, and 2 or more bedrooms at or below 85% of AMI, the City should consider using the same affordability level to facilitate improved compliance, reporting and oversight of this requirement.

Unit Size	AMI	2013 Income		2013 Rent*
		1 person	2 persons	
0	65%	39,455	45,110	886
1	75%	45,525	52,050	1,201
2	85%	51,595	58,990	1,519

*reflects standard deduction for tenant-paid utilities.

- Current affordability levels, governing both incomes and rents, have been in place since 2011.
- Principal questions:
 - Should current affordability levels be changed?
 - Should the City maintain a graduated set of income levels, depending on unit size?

Affordability/Market vs MFTE

At current MFTE limits, MFTE rents save income-eligible renters between \$300 and \$400 per month as compared to market rate for a comparable unit.

		Unit Size (Bedroom Count)		
		0	1	2
Market Rents	BT/DT/SLU	1,094	1,867	2,183
	UnivDist	1,098	1,394	na
	Wseattle	1,141	1,354	1,825
	Central	1,145	1,474	1,407
	Ballard	1,256	1,502	1,634
	QA	1,324	1,683	1,808
	CpHI/Estlk	1,404	1,694	2,005
	First Hill	1,532	1,623	2,077
AVERAGE		1,249	1,574	1,848
2013 MFTE		886	1,201	1,519
Difference		363	373	329

Source for monthly market rents: Dupre & Scott, Fall 2012 for multifamily rental constructed since 2008.

MFTE rent levels reflect a standard reduction for utilities.

Affordability/Retained Tax Savings

Retained tax savings:

The value of the tax exemption *less* forgone rent revenue.

Past target for average retained savings: 50%

- To test alternate affordability levels, OH created a model that estimates average retained tax savings to a building owner.
- Actual tax savings vary widely. Building owners in softer rental markets retain a greater percentage of tax savings (up to 100%) than building owners who can command high market rents.
- In today's market, we estimate that rent restrictions mean that the building owner retains about 25% of the tax savings.

Affordability/Modeling Results

Current affordability limits were set to produce average retained tax savings of about 50%.

Changing conditions now suggest average retained tax savings of 37%.

Average Retained Tax Savings by AMI Scenario, 2010 vs 2013

	Scenario A	Scenario B	Scenario C	Scenario D
	70/75/85	65/75/85	65/70/80	60/70/80
2010	58	52	43	37
2013	43	37	30	23

Changes since 2010:

- Market rents up by about 20%.
- Restricted rents up by about 1%.
- Other changes' effects are comparatively trivial.

Affordability/Other Variables

Council choices about affordability levels ought to factor in an audit-recommended change to 1BR occupancy, from 2 persons to 1.5 persons.

Looking beyond affordability levels, Council could choose to alter set-asides.

2013 Retained Tax Savings by AMI Scenario:

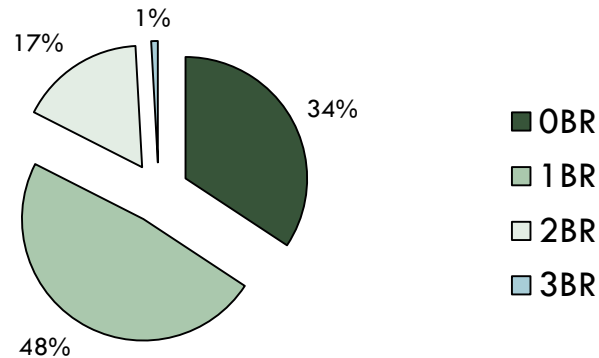
- Reduced 1BR Occupancy
- Increased Set-Aside

	Scenario A	Scenario B	Scenario C	Scenario D
	70/75/85	65/75/85	65/70/80	60/70/80
2013 Status Quo	43	37	30	23
2013 1BR = 1.5 persons	39	32	26	19
2013 25% Set-Aside	28	20	12	4

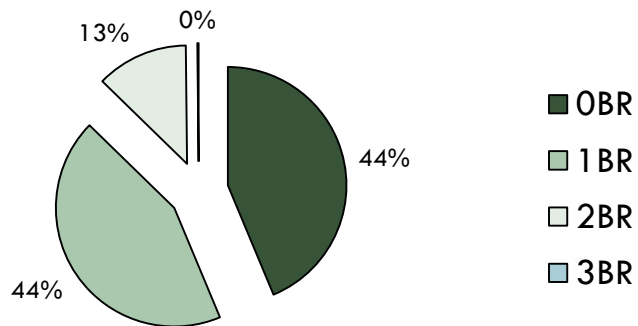
OH can model other scenarios as desired.

Unit Sizes

Units Approved since 1998 (n=12,324)



Units Approved since 2011 (n=5,210)



Council also faces policy questions about unit sizes.

- Should the program limit smaller units that are apt to be “naturally” affordable?
- Should the program continue to incentivize larger units? Should the program do more to encourage development of family-sized units?